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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE APPLICATION OF
SOUTHWEST GAS CORPORATION FOR
APPROVAL OF ACQUISITION PLAN AND,
IF APPROPRIATE, WAIVER OF SELECTED
PROVISION OF THE AFFILIATE RULES.

Docket No. G-01551A-02-0425

Arizona Corporation Commission
DOCKETED

APR 04 2003

RUCO'S CLOSING BRIEF

DOCKETED BY

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INTRODUCTION

The Residential Utility Consumer Office ("RUCO") believes that the Arizona Corporation Commission ("Commission") should approve Southwest Gas Company's ("SWG" or "Company") application for approval of the acquisition of Black Mountain Gas Company ("Black Mountain"). RUCO's positions on a number of issues are set forth below.

RATE ANALYSIS

It is both RUCO and the Company's position that the currently authorized rates and tariffs of Black Mountain's Cave Creek Division should stay in place until SWG's next rate case. (See Direct Testimony of Robert Gray at 2) Staff, on the other hand, proposes that SWG begin charging Black Mountain's customers SWG's rates immediately upon the

1 completion of Black Mountain's dissolution, which, under the Staff proposal must take
2 place on or before July 1, 2004. (Direct Testimony of Robert Gray at 3) Currently, SWG's
3 rates are lower than Black Mountain's.

4 Although RUCO encourages rate reductions generally, RUCO also believes that as
5 a matter of public policy and sound regulatory principle it would be imprudent to change
6 Black Mountain's rates outside the context of a rate case. Ratepayers should enjoy
7 stability in rates during a pending acquisition. Where an acquiring utility has higher rates
8 than those of a utility being acquired, rates should not increase at the time of the
9 acquisition. The Commission should not change customer's rates - either up or down - at
10 the point where customers of one utility become customers of another utility solely due to a
11 corporate acquisition.

12 The Commission should maintain stability in rates by maintaining Black Mountain's
13 rates pending the Company's next rate case, where a determination then can be made of
14 the Company's actual cost to serve the Black Mountain customers.

16 **ACQUISITION ADJUSTMENT**

17 At issue is the ratemaking treatment of the acquisition premium. (Direct Testimony
18 of Rodney Moore at 11) RUCO joins in the Company's recommendation of deferring
19 consideration of the acquisition adjustment to Black Mountain's next rate case. (Direct
20 Testimony of Rodney Moore at 14) Staff has recommended a condition that prohibits the
21 Company from seeking recovery of any acquisition adjustment. (Direct Testimony of Joel
22 M. Reiker at 12)

23 Typically, the premium associated with an acquisition should not be recoverable
24 from ratepayers. Inclusion of a premium artificially inflates the book value of the assets

1 and, in turn, rates. After an acquisition and consolidation, the same assets will serve the
2 same customers. Thus, the mere transfer of ownership of assets should not serve to
3 increase rates. (Direct Testimony of Rodney Moore at 13)

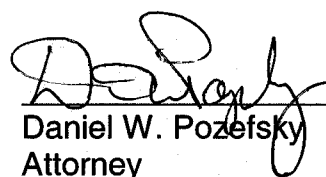
4 However, the Company, at the time of the filing of its next Arizona general rate
5 case, will have had an opportunity to operate BMG and determine the operational and
6 administrative efficiencies and the customer benefits the acquisition has brought to BMG's
7 and SWG's existing customers. Id. At that time, any efficiencies will be known and
8 measurable and the appropriateness of an acquisition adjustment can be determined. The
9 Company intends to propose an appropriate ratemaking treatment in its next rate case that
10 will adequately balance and share the benefits of the acquisition and protect both its
11 customers and shareholders. Id. at 13-14

12 RUCO's recommendation should not be mistaken for approval of the acquisition
13 premium. RUCO realizes that at the time of the acquisition the Company has not had an
14 opportunity to realize and/or quantify the operational and administrative efficiencies it can
15 achieve through the acquisition. To deprive the Company of that opportunity, or worse, to
16 not even consider the operational and administrative efficiencies realized from the
17 acquisition, would be contrary to sound public policy. Ratepayers can benefit from
18 efficiencies resulting from acquisitions. Depending on the benefits realized, it may be
19 appropriate for companies to share in those benefits by recovering some of the acquisition
20 premium. The consideration of the premium in ratemaking treatment will encourage
21 companies to strive towards peak efficiency. Everyone, including the ratepayers, benefits
22 from a company that operates at peak efficiency. At the very least, this Commission
23 should consider such efficiencies once they are known. The Commission should defer
24 consideration of the acquisition premium until the next rate case.

1 **CONCLUSION**

2 RUCO recommends that the Commission approve the Company's application to
3 acquire Black Mountain. RUCO further recommends that the Commission maintain Black
4 Mountain's rates pending the Company's next rate application and defer the question of
5 the acquisition premium for consideration during the Company's next rate application.

6 RESPECTFULLY SUBMITTED this 4th day of April, 2003.

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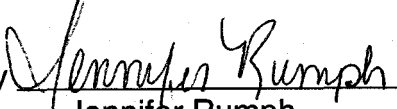
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